



FIRST NATIONS DEVELOPMENT INSTITUTE

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December 10, 1997

Ms. Cynthia L. Johnson
Director, Cash Management Policy and Planning Division
Fiscal Management Service
U.S. Department of the Treasury
Room 420
401 14th Street, S.W.
Washington, D.C. 20227

Dear Ms. Johnson:

First Nations Development Institute, a nonprofit grantmaking and technical assistance organization committed to culturally guided private sector development in Indian Country, is pleased to submit comments on proposed rule 31 CFR Part 208, the EFT '99 implementation process.

A primary mission of First Nations is to assist tribes in mobilizing economic development strategies that contribute to a "low leakage, high multiplier" revenue circulation pattern on reservations. That is, revenue that reaches reservations should remain there long enough to turn over productively before leaking out to border towns.

Much Native American revenue is already spent in border towns, and the percentage will rise if provision is not found for Indian people to access Electronic Funds Transfer accounts on reservations.

Toward this end, First Nations has been in correspondence since last March with Mr. John Hawke and Mr. Richard Carnell, and in regular conversation with Mr. Donald Hammond. These gentlemen and Treasury at large have been most responsive to our concerns, as reflected in the proposed rule's position [page 48719] "that a waiver should be available to someone who lives in a rural area or on an Indian reservation with limited access to transportation or banking facilities and who would have great difficulty getting to a bank or ATM to receive payment by EFT." First Nations applauds this statement and would not change it in the final rule.

But with a waiver secured, we must take care that the waiver does not beget the *de facto* exclusion of Indian Country from developing financial services. Lack of credit relationships and the resultant disinvestment have been the bane of Indian communities since the onset of the reservation era. We know that Treasury cannot erase the barriers erected over decades at the stroke of a pen; however, Treasury is in position to encourage mainstream banking relationships in Indian Country through EFT '99.

First Nations Development Institute recommends that Treasury incentivize four distinct measures through the Request For Proposals on Electronic Transfer Accounts:

* Above all, mobile unit banking should be encouraged for rural "frontier counties" by the Census Bureau standard of six people or fewer per square mile and for all federal- or state-recognized reservations, pueblos and rancherias. First Nations can speak for Indian Country in this regard: reservation-based financial institutions are few and the ATM penetration of reservations ranges from non-existent in most cases to spotty in a few.

Mobile unit banking, which has been applied to Indian Country in several cases, appears to be the ideal way of utilizing EFT '99 to overcome the "distance" barrier between Native Americans and full financial services, including EFT/ETA transactions.

Financial institutions that successfully commit to mobile unit banking as a way of overcoming geographic distance for EFT and other purposes can clearly expect CRA credit, as well as the value-added considerations associated with service enhancement. But in Indian Country, a further financial incentive may also make sense, given the heavy capital investment required for starting up, securitizing, field-testing, and in some cases courting regulatory approval of mobile banking units. The financial incentive that seems most workable to First Nations is cost-sharing between multiple financial institutions (including banks, Community Development Credit Unions, Community Development Financial Institutions) that would team up to capitalize, staff and service ATM- and EFT/ETA-capable mobile banking units. Another possibility is that Small Business Investment Companies may emerge to finance mobile banking units, in view of the FFIEC directive that bank examiners interpret any loan to or investment in SBICs as promoting economic development and so CRA-eligible. First Nations urges Treasury to structure partnership incentives for mobile units serving remote rural and reservation areas into the RFP on ETAs.

* EFT '99 represents an unrivaled opportunity to foster a savings infrastructure in low-income communities, including many Indian communities. Treasury should be explicit in soliciting an affordable savings feature in its RFP on ETAs. Treasury's assessment of the competing ETA bids should encourage financial agents to offer free transfers from the basic ETA to a savings account that is linked to the ETA but separate from it (i.e., no commingling of ETA and savings account balances, though both accrue to the same account holder).

To facilitate savings, the savings feature should be offered at a low cost, and to this end it should offer four or more free withdrawals and four or more free deposits per month. Interest should accrue on savings balances that have been in effect for three months.

Finally, to enable long-term savings and the accumulation of remunerative assets, Treasury should incentivize the higher-return instrument of Individual Development Accounts. These restricted accounts should be set up so that the financial agent either receives CRA credit under the service test for holding IDAs, or CRA credit under the investment test for financing a community nonprofit group to manage IDAs held by the financial agent or for providing a match to amounts saved in IDAs maintained outside the province of the particular

financial agent. In either case, the financial agent would receive revenue from holding these long-term accounts, and these revenues would be the reason for keeping the accounts low-cost or no-cost and interest-bearing under Treasury's RFP criteria on ETAs.

* First Nations supports the U.S. Postal Service as a venue for EFT/ETA access. Though the challenges of such an arrangement are readily acknowledged, the potential gain is so great -- with postal outlets in so many small towns -- that we urge Treasury to maintain an exploratory posture on EFT and the Postal Service. We do not see at this time how the cash flow at small postal offices can be enhanced to accommodate EFT/ETA transactions, but a focus on service innovations may discover approaches that haven't occurred to anyone yet. Treasury, after all, has an interest in shepherding EFT/ETA recipients into mainstream financial channels. The U.S. Post Office has an interest in selling money orders. Perhaps if the financial services industry were not to offer money order- and stamped envelope-issuance capabilities at ATMs for EFT purposes (see below), Treasury could offer the Postal Service incentives to sell money orders for EFT purposes on condition the service use a portion of the profits to provide EFT-specific liquidity for its smaller branches.

* In Indian Country as elsewhere, the mainstreaming of "unbanked" individuals means that many initial EFT account holders will experience difficulty in managing their account, raising the likelihood of penalty fees that may, in turn, drive new EFT beneficiaries permanently from the mainstream financial channels where Treasury is charged with placing them. Therefore, distinct measures should be taken to minimize the impact of overdraft fees and other surcharges on first-time EFT recipients.

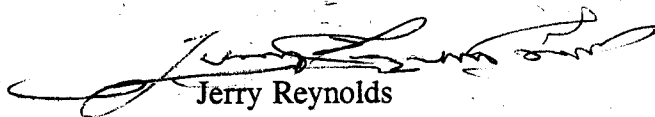
The solution to EFT/ETA overdraft fees favored by First Nations is for Treasury to encourage money order- and stamped envelope-issuance capabilities in EFT-capable ATMs. Though this measure obviously will not eliminate ETA overdrafts, ATMs that can issue a money order, stamp and envelope at a reasonable cost, while denying same beforehand on insufficient-fund accounts, will appeal powerfully to those individuals who distrust the banking system because of previous experience with overdraft penalty fees. In addition, the ATM issuance of money orders on ETAs will offer a security feature that should not be underestimated in certain neighborhoods, including occasional reservation neighborhoods. And finally, the scarcity of financial institutions in Indian Country suggests that money order-capable ATMs would be a greatly appreciated feature of EFT '99.

This concludes our comments. Again we applaud Treasury on its EFT '99 efforts to date, and we stand ready to answer any further questions or offer any further assistance as it may be needed within Indian Country.

Sincerely,



Joseph P. Getch III
Chief Operating Officer



Jerry Reynolds
Director, Information Services